Cancorp

File

QCTV LTD
ANNUAL REPORT
1976

QCTV LTD
DIRECTORS, OFFICERS AND MANAGEMENT

DIRECTORS

JOHN E. BACHYNSKI
Edmonton, Alberta

* **HARRY BARABASH**
Edmonton, Alberta

GEORGE F. BONDAR
Edmonton, Alberta

LAURENCE G. DECORE
Edmonton, Alberta

ROBERT L. HUNTER
Toronto, Ontario

ROBERT E. LEGATE
Edmonton, Alberta

HUGH H. MILLAR
Edmonton, Alberta

EDWARD J. POLANSKI
Edmonton, Alberta

* Deceased March 25, 1976

OFFICERS

EDWARD J. POLANSKI
President & General Manager

E. THURSTON HUNT, C.A.
Secretary-Treasurer

HEAD OFFICE AND OPERATIONS CENTRE: 10538 - 114 Street, Edmonton

AUDITORS: **COOPERS & LYBRAND,** Chartered Accountants, Edmonton

BANKERS: **TORONTO-DOMINION BANK,** Edmonton Centre, Edmonton

TRANSFER AGENT AND REGISTRAR: **CANADA TRUST COMPANY,** Edmonton

QCTV LTD

COMPARATIVE HIGHLIGHTS

(For Fiscal Year 1976, ending August 31, with comparative figures for 1972, 1973, 1974 and 1975)

FINANCIAL	1972	1973	1974	1975	1976
PROFIT/LOSS					
Gross Revenue	$ 84,102	$ 961,310	$2,185,984	$2,838,501	$4,143,580
Expenses	231,898	1,337,187	2,455,916	2,571,317	3,547,160
Net Profit (Loss)	(147,796)	(375,877)	(269,932)	267,184	596,420
Cash Flow from Operations	(94,299)	61,488	507,882	1,098,689	1,266,823
ASSETS					
Additions to Fixed Assets (Net)	1,675,721	4,832,866	1,368,117	437,305	932,101
Investment in Fixed Assets (Cost)	1,684,932	6,517,798	7,885,915	8,232,220	9,255,321
Investment in Fixed Assets (Net)	1,634,035	6,083,876	6,746,398	6,402,884	6,482,485

OPERATING					
SUBSCRIBERS					
Estimated Potential Subscribers	68,000	70,000	71,000	71,500	72,500
Connected Subscribers:					
Individual Households	2,500	27,027	39,777	42,977	47,703
Extra Outlets	400	3,000	4,000	5,245	6,829
Commercial Bulk Outlets	200	2,500	3,500	4,654	4,770
Total Paying Terminals	3,100	32,527	47,277	52,876	59,302
QCTV Percentage of Penetration	3.6	38.6	56.0	60.1	65.8

QCTV LTD

REPORT TO THE SHAREHOLDERS

This is the fifth Annual Report of your Company, which I am pleased to present on behalf of the Board of Directors. It is with deep sorrow that we report the untimely death of Mr. Harry Barabash on March 25, 1976. During his six years of service on the Board, his contribution and counsel was appreciated and will be greatly missed.

FINANCIAL RESULTS

Your Directors submit herewith audited accounts for the year ended August 31, 1976 with comparative figures for the same period in 1975. Company revenue increased 17.5% from $3,486,578 in the previous year to $4,095,798 in the reporting year. Overall expenses were held to an increase of only 8.2% when compared with the previous year, increasing from $3,219,294 to $3,484,160. The result of higher revenues and control of expenses was to increase cash flow from $1,098,689 in the previous year to $1,266,823 in the year ended August 31, 1976 for an increase of 15.3%. Your Company's net profit and earnings per share increased 123.2% from $267,184 or 30.4c per share in 1975 to $596,420 or 67.7c per share in 1976. In addition, the year has been a significant one in that the previous year's deficit balance of $526,421 has been turned into a retained earnings surplus of $69,999 in the reporting year.

FUTURE OUTLOOK

Your Company is continuing to reduce its long-term loans. A total of $900,000 was paid to the bank in the reporting year and an additional $700,000 has already been paid towards the 1976-77 installment.

System expansion is continuing to take place in new and contiguous areas, keeping pace with the growth of the City of Edmonton. An application has been filed with the Canadian Radio-television and Telecommunications Commission for authority to serve the recently approved satellite town known as "ENOCH". There can be no assurance that approval will be granted to your Company, however, since the community is adjacent to QCTV's service area where trunk cables and QCTV's head-end facilities presently exist, the probability favors your Company being awarded this additional service area, thereby ensuring continued growth.

With continued system expansion, reduction of debt and interest charges, implementation of a 25c/subscriber per month rate increase and the addition of an NBC station, your Company can expect a further increase in profitability and higher per share earnings in the 1976-77 fiscal year.

On behalf of the Board,

Ed. Polanski

E. J. POLANSKI
President
January 19, 1977

QCTV LTD

BALANCE SHEET AS AT AUGUST 31, 1976

	1976 $	1975 $
ASSETS		
CURRENT ASSETS		
Cash	64,064	55,760
Accounts receivable (note 4)	120,499	109,777
Inventory	296,251	405,024
	480,814	570,561
INVESTMENT (note 2)	26,652	33,484
FIXED ASSETS (notes 3 and 4)	6,482,485	6,402,884
	6,989,951	7,006,929
LIABILITIES		
CURRENT LIABILITIES		
Demand loan	400,000	200,000
Accounts payable and accrued liabilities	471,192	422,841
Service rentals received in advance	249,253	298,253
Current portion of long-term debt	903,107	900,748
	2,023,552	1,821,842
LONG TERM DEBT (note 4)	2,134,000	3,012,108
DEFERRED INCOME TAXES	63,000	—
	4,220,552	4,833,950
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 5)	2,699,400	2,699,400
RETAINED EARNINGS (DEFICIT)	69,999	(526,421)
	2,769,399	2,172,979
	6,989,951	7,006,929

SIGNED ON BEHALF OF THE BOARD

ED. POLANSKI, Director

H. H. MILLAR, Director

QCTV LTD

STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1976

	1976 $	1975 $
REVENUE		
Service rentals	3,670,504	3,140,574
Installation sales	420,466	337,203
Other	4,828	8,701
	4,095,798	3,486,478
EXPENSES		
Operations and administration	1,808,551	1,546,652
Depreciation and amortization	852,709	829,822
Interest on long-term debt	454,120	494,289
Installation sales commissions	287,744	263,616
Municipal tax (note 6)	81,036	84,915
	3,484,160	3,219,294
	611,638	267,184
RECOVERY OF INVENTORY WRITE-DOWN, (note 7)	47,782	—
EARNINGS BEFORE INCOME TAXES	659,420	267,184
PROVISION FOR INCOME TAXES — DEFERRED	308,680	126,000
EARNINGS BEFORE EXTRAORDINARY ITEM	350,740	141,184
EXTRAORDINARY ITEM		
Income tax reduction on carry-forward of losses	245,680	126,000
NET EARNINGS FOR THE YEAR	596,420	267,184
EARNINGS PER SHARE		
Earnings before extraordinary item	39.9¢	16.0¢
Net earnings for the year	67.7¢	30.4¢

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1976

	1976 $	1975 $
BALANCE — BEGINNING OF YEAR	(526,421)	(793,605)
Net earnings for the year	596,420	267,184
BALANCE — END OF YEAR	69,999	(526,421)

QCTV LTD

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED AUGUST 31, 1976

	1976 $	1975 $
SOURCE OF WORKING CAPITAL		
Provided from operations —		
Earnings before extraordinary item	350,740	267,184
Items not affecting working capital —		
Depreciation	852,709	800,320
Amortization of deferred charges	—	27,738
Amortization of deferred finance charges	—	1,764
Loss on sale of fixed assets	374	1,683
Deferred income taxes	63,000	—
	1,266,823	1,098,689
Decrease in investment	6,832	17,914
Proceeds from sale of fixed assets	16	52,599
Income tax reduction on carry-forward of losses	245,680	—
	1,519,351	1,169,202
USE OF WORKING CAPITAL		
Decrease in long-term debt	878,108	900,575
Additions to fixed assets	932,700	511,088
	1,810,808	1,411,663
DECREASE IN WORKING CAPITAL	291,457	242,461
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	1,251,281	1,008,820
WORKING CAPITAL DEFICIENCY — END OF YEAR	1,542,738	1,251,281

QCTV LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 1976

1. ACCOUNTING POLICIES

(a) Inventory

Inventory consists of electronic equipment, supplies and cable and is valued at the lower of cost (determined on the first-in, first-out basis) or market. Market is defined as net realizable value or replacement cost where applicable.

(b) Fixed Assets

Fixed assets are carried at cost. Depreciation is calculated at rates which will reduce the original cost of fixed assets to estimated residual value over the useful life of each asset on a straight line basis as follows:

Buildings	5%
Automotive Equipment	20%

For all other assets, excluding land, 5% depreciation is provided in the year of acquisition, 10% in each of the next nine years and 5% in the eleventh year.

(c) Income Taxes

The company accounts for income taxes on the tax allocation basis. Deferred income taxes are recorded when income taxes actually payable in respect of a year are reduced because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes. These timing differences relate primarily to depreciation and capital cost allowance.

(d) Comparative figures

Where applicable, comparative figures have been reclassified to conform with the presentation used in the current year.

2. INVESTMENT

The company holds a 25% interest in MKC Properties Ltd., a company formed with three other cable television companies to construct and operate a reception facility at Mount Kelley in British Columbia. The company's investment is represented by $26,632 (1975, $33,464) in advances and $20 in shares. The company accounts for its investment on the equity basis. Accordingly, its investment has been reduced by $6,832 during the year representing its share of the losses of MKC.

3. FIXED ASSETS

	1976			1975
	Cost	Accumulated depreciation	Net	Net
	$	$	$	$
Distribution System	8,421,760	2,605,247	5,816,513	5,970,959
Land, buildings and equipment	833,561	167,589	665,972	431,925
	9,255,321	2,772,836	6,482,485	6,402,884

4. LONG-TERM DEBT

	1976	1975
	$	$
This amount includes:		
Term bank loan — interest at 2% above prime	2,700,000	3,800,000
Secured as follows: —general assignment of book debts —fixed charge over land, buildings and equipment —floating charge over all other assets		
10% agreement for purchase of land and buildings payable $12,000 annually including principal and interest with final payment of $111,575 due January 1, 1979	112,107	112,856
Agreement to purchase land and building —interest and terms of repayment not yet determined	225,000	—
	3,037,107	3,912,856
Less: Current portion	903,107	900,748
	2,134,000	3,012,108

5. CAPITAL STOCK

	1976	1975
	$	$
Authorized— 2,000,000 common shares without nominal or par value		
Issued and fully paid— 880,000 common shares	2,699,400	2,699,400

450,000 shares outstanding at August 31, 1976 are held in escrow.

6. CONTINGENT LIABILITY

Under the terms of a contractual agreement with the City of Edmonton the company is required to pay certain municipal taxes and/or fees annually.

There is a difference of opinion as to the interpretation of the agreement relating to the determination of the basis of taxes payable. If the City's interpretation is upheld the company will be liable for an additional $105,300. This would increase the municipal tax expense for the year by $73,500 with a resulting decrease in net earnings for the year to $522,920 and a reduction in earnings per share for the year from 67.7c to 59.4c. Prior years' retained earnings would decrease by $31,800.

7. RECOVERY OF INVENTORY WRITE DOWN

During the year a portion of a prior year's write down of inventory was recovered through sale, or use of the inventory in the system.

8. TAX LOSS CARRY FORWARD

The company has accumulated losses for tax purposes of $2,607,000 which may be carried forward and used to reduce taxable income in future years. These tax losses may be claimed no later than:

	$
Year ending August 31, 1977	40,000
1978	1,454,000
1979	986,000
1980	127,000
	2,607,000

9. STATUTORY INFORMATION

The aggregate direct remuneration paid to the five highest paid employees including the directors and senior officers of the company during the year amounted to $118,380 (1975 — $87,790).

QCTV LTD

AUDITORS' REPORT TO THE SHAREHOLDERS

October 8, 1976

We have examined the balance sheet of QCTV Ltd. as at August 31, 1976 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at August 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Bulletin Commercial
LITHOGRAPHED IN CANADA

AR44

QCTV LIMITED

Price		P.E. Multiple on 1973 Est.	--
February 6, 1973	$5 3/4	1974 Proj.	12.8X
		1975 Proj.	6.8X
Earnings per share		Indicated dividend	--
Year ended August 31, 1972	($0.17)		
1973 Est.	($0.16)		
1974 Proj.	$0.45		
1975 Proj.	$0.85	Yield	--

SUMMARY

QCTV was incorporated in 1969 and licenced by the Canadian Radio-Television Commission in 1970 to construct and operate a Cable TV system serving the western half of the City of Edmonton, Alberta. The Company's licenced area includes approximately 52% or 260,000 of the city's 505,000 population. Based on the municipal average of 3.4 people per household, QCTV's potential reach at August 31, 1972 was about 75,000 homes.

Edmonton is the seventh largest urban centre in Canada. Since 1966, both population and households have been growing in excess of 3.9% per year. Projecting this growth rate over the next ten years, QCTV's potential coverage should increase to around 86,000 homes in 1976 and 102,000 homes in 1981.

By January 31, 1973, 13,000 subscribers had been connected and an additional three thousand had contracted to purchase the Company's service. To date, QCTV has been experiencing 50% initial saturation in newly wired sections of its licenced area.

By the end of fiscal 1973 virtually the entire licenced area should have been wired and we estimate that service will have been extended to a total of 26,000 subscribers. We expect a very rapid rise to the 75% saturation level by 1975. This level of penetration seems justified by the limited service presently available off-air and by the active solicitation of new subscribers done by Starchuck Distributors Limited under contract to the Company.

Over the next four years, we project revenues to increase by around 170% annually from $84,000 in 1972 to around $4.4 million in 1976. Over the same period, we estimate that earnings will increase from a net loss of $148,000 or $0.17 per share in fiscal 1972 to a profit of around $1.1 million or $1.20 per share in 1976.

Due to the early stage of development of the Edmonton system and a further net loss estimated in fiscal 1973, the shares of the Company may be considered speculative. Nevertheless, commencing in fiscal 1974 we project net profit per share of around $0.45 rising to around $1.20 in fiscal 1976. At the current price of $5 3/4, the shares are trading at 12.8 times projected 1974 earnings per share, substantially lower than other public Cable TV companies. We therefore recommend purchase of QCTV for aggressive accounts seeking capital appreciation over the longer term.

QCTV LIMITED

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QCTV LIMITED

The Company

QCTV Limited ("QCTV" or "the Company") was incorporated in September, 1969 under the laws of the Province of Alberta. On August 1, 1970 the Company received a three year licence from the Canadian Radio-Television Commission ("CRTC") to construct and operate a Cable TV system serving the western half of the City of Edmonton. In September, 1972 the Company made a public offering of its shares. At January 31, 1973, 13,000 subscribers were connected to the Company's cable and by fiscal 1973 yearend the total is expected to rise to 26,000. Revenues in fiscal 1973 are estimated at around $1.3 million, compared to $84,000 in 1972.

Capitalization

QCTV's capitalization at August 31, 1972 before giving effect to the recent public offering was as follows:

	Outstanding	Per Cent
Long term debt	$134,120	46.8%
Shareholders' equity		
Authorized: 2,000,000 common shares N.P.V.		
Issued: 450,000 common shares	300,000	104.8%
Net loss for period	(147,796)	(51.6%)
Total	$286,324	100.0%

The Industry

Cable TV is currently the fastest growing segment of the communications industry. Total subscribers wired to all Canadian systems have increased from 516,484 in 1967 to 1,398,469 in 1971, an average annual increase of 28%. Over the same period, industry revenues have grown by 32% per year, from $22.1 million to $66.6 million.

A record of the industry's performance between 1967 and 1971 is presented below:

Year ended August 31	1967	1968	1969	1970	1971	Average Annual Growth
Subscribers - Individual	408,853	555,275	722,767	899,854	1,082,379	27%
Bulk	107,631	154,801	201,044	264,333	316,090	31%
Total	516,484	710,076	923,811	1,164,187	1,398,469	28%
		($'000)				
Revenue	$22,115	$31,286	$37,380	$54,940	$66,620	32%
Operating costs	13,700	18,560	22,247	30,282	35,196	27%
Operating profit	$ 8,415	$12,726	$15,133	$24,658	$31,424	39%
Operating profit margin	38.1%	40.7%	40.5%	44.9%	47.2%	

The phenomenal growth of Cable TV over the past five years is attributable to two factors. In the 65% of Canada where U.S. channels are available directly off-air, Cable provides clear reception in those urban areas where tall buildings would normally disrupt patterns. This is particularly true of colour TV reception. In the other 35% of Canada where only two or three alternate Canadian channels are available off-air, Cable TV can provide a big increase in viewing choice in addition to a clear picture. Edmonton, which presently provides three local Canadian channels, one of them an educational station, belongs to the latter category and is therefore a prime centre for Cable TV development.

Area Serviced and Subscriber Potential

Edmonton is the seventh largest urban centre in Canada and since 1966 the population has increased at an average annual rate in excess of 3.9%, totalling over 505,000 in 1972. QCTV's licenced area covers the western half of Edmonton and contains approximately 52% of the city's population. QCTV's licenced area therefore incorporates about 260,000 persons. With an average of 3.4 people per household, the Company's potential reach at August 31, 1972 was about 75,000 homes. Assuming future growth in households at the same rate as experienced over the past five years, we estimate QCTV's potential coverage should increase to around 86,000 in 1976 and 102,000 in 1981.

By January 31, 1973, QCTV had laid over 300 miles of cable and 13,000 subscribers were being serviced. During the remainder of fiscal 1973, we expect the last 250 miles of cable to be laid and an additional 13,000 subscribers to have been connected. Our projections for QCTV's subscriber growth over the next 5 years is presented below:

	Actual	Est.	Projected		
Year ended August 31	1972	1973	1974	1975	1976
Households in area	75,000	77,500	80,000	83,000	86,000
Households wired	16,000	77,500	80,000	83,000	86,000
Subscribers on service	2,500	26,000	53,000	62,000	64,500
% Penetration	16%	34%	66%	75%	75%

As shown above, we expect a very rapid rise in the level of saturation to 75% by 1975. This level of penetration seems justified not only by the limited number of channels now available off-air, but also by the active degree of subscriber solicitation presently undertaken by Starchuck Distributors Limited under contract to QCTV. Under the terms of the contract, Starchuck must achieve 40% saturation in each block of the licenced area before it is allowed to move on to the next. In addition, active solicitation must continue until 75% penetration in each section is reached. To date, the Company has been experiencing over 50% initial penetration in newly wired sections of its licenced area, even when customers have had to wait up to six weeks to be connected. At the present time, sales of contracts are running about 3,000 ahead of connections. By fiscal 1973 yearend, we expect the lag time between contract and connection to have been reduced to around two weeks which is considered normal in the industry.

Operations

QCTV and three other Cable TV companies each own 25% of MKC Properties Limited ("MKC") which operates a head-end on Mount Kelly, B.C., near the Washington

border. MCK's head-end picks up the CBS and PBS/NET signals from Spokane, Washington and relays them via microwave facilities to the Company's Edmonton head-end, which also picks up local Edmonton signals. Under construction is a head-end facility south of Edmonton which will pick up alternate CBC programming from Red Deer which, because of the station's private CBC affiliate status, varies significantly from the CBC service already available in Edmonton.

A breakdown of those channels available off-air and those available via Cable TV is presented below:

Without Cable		With Cable	
Station	Affiliation	Station	Affiliation
CBXT-TV (Edmonton)	CBC	CBXT-TV (Edmonton)	CBC
CFRN-TV (Edmonton)	CTV	CFRN-TV (Edmonton)	CTV
CBXFT-TV (Edmonton)	CBC French and MEETA*	CBXFT-TV (Edmonton)	CBC French and MEETA*
		CKRD-TV (Red Deer)	CBC
		KXLY-TV (Spokane)	CBS
		KSPS-TV (Spokane)	PBS/NET
		Local Programming	
		Time and Weather	
		Children's FM	
		FM Music	
		FM Music	
		FM Music	

* Metropolitan Edmonton Education Television Association.

In addition to its television programming QCTV has allowed for up to three channels devoted to FM music, one channel exclusively for children's FM, one for local programming, and one which will be a time and weather slot. While no programming origination is currently done the Company has purchased a building for this purpose and is in the process of equipping it. The community channel will also distribute material produced by local educational institutions. Local origination is expected to have begun by fiscal 1973 yearend. The Company has also indicated that it will file an application with the CRTC to bring in additional U.S. programming.

Revenue

QCTV currently charges $6.00 per month per subscriber. However, of this $6.00, $0.50 is allocated for microwaving costs and $0.50 for local programming costs. The Company's effective revenue is therefore $5.00 per subscriber per month or $60 annually. In addition, QCTV charges an initial connection fee of $15, payable at the time a contract is signed. Of this $10 is allocated to Starchuck as sales commissions. Up to an additional $0.75 per connection is allowed Starchuck to offset advertising costs, however, to date the full $0.75 has not been used.

As is the case in other parts of the country, we expect QCTV to experience a high level of second Cable outlets and FM radio outlets once full wiring of the system is completed. The monthly charge for either additional service is $1.50.

The Company's revenue is therefore derived from the three main sources elaborated upon above. Based on our subscriber projections to 1976 and the Company's actual results to August 31, 1972, we estimate QCTV's revenues for the next four years as presented on the following page:

($'000) Year ended August 31	Actual 1972	Est. 1973	Projected 1974	1975	1976
Basic Cable TV Service					
Subscribers connected at yearend	2,500	26,000	53,000	62,000	64,500
Average number of subscribers	925	18,200	44,000	59,000	63,600
Revenue @ $60/subscriber/year	$ 55	$1,090	$2,640	$3,540	$3,820
Installation Fees*					
New subscribers contracted	6,000	22,000	26,000	9,000	2,500
Revenue @ $4.25 each	$ 25	$ 95	$ 110	$ 40	$ 10
Additional Outlets					
Additional outlets at yearend	500	5,000	15,000	27,000	32,500
Average additional outlets	200	3,500	12,000	23,000	31,500
Revenue @ $18/subscriber/year	$ 4	$ 65	$ 200	$ 420	$ 570
Total Revenue	$ 84	$1,250	$2,950	$4,000	$4,400

*Installation fees are payable at the time a contract is sold.

In total, we estimate that QCTV's revenues should reach around $1.3 million in fiscal 1973 and $3.0 million in fiscal 1974. The Company's revenues should again increase dramatically in 1975 to $4.0 million and thereafter show an average annual gain of around 10% as the 75% saturation level is reached.

Operating Costs and Profits

The Company is expected to achieve a higher level of operating profitability than the industry average by 1975. This is expected to result from several factors. Both microwaving and programme origination costs are deducted directly from revenue while sales commissions and advertising costs are deducted directly from connection fees. In addition, the Company owns its own distribution system and presently has an attractive pole rental agreement with the City of Edmonton and the Alberta Telephone Company. All house drop charges, both labour and materials, are capitalized.

Operating expenses therefore incorporate only salaries, technical maintenance, administrative costs and municipal taxes. The low labour intensiveness of the industry further contributes to a high degree of operating profitability.

Although the Company had an estimated operating deficit of around $70,000 in fiscal 1972, we project an operating profit in each successive year, as indicated below:

($'000) Year ended August 31	Estimated 1972	1973	Projected 1974	1975	1976
Revenue	$ 84	$1,250	$2,950	$4,000	$4,400
Operating costs	154	850	1,650	1,725	1,550
Operating profit (loss)	($ 70)	$ 400	$1,300	$2,275	$2,850
Operating profit margin	--	32.0%	44.1%	56.9%	64.8%

While this operating profit margin may seem high by industry standards, it should be noted that if computed on a basis comparable with other Cable TV operators (i.e. by including microwave and programming costs in operating costs), QCTV's operating profit margin would decline to 27% in 1973 and 55% in 1976.

Based on our projections of revenues and a sharp decrease in operating costs relative to revenues, we estimate that QCTV's operating profit in fiscal 1973 should reach $400,000 or 32.0% of revenues. By 1976, we project operating profits of $2.9 million or 64.8% of revenues.

Capital Expenditures and Depreciation

In order to continue rapid expansion of its system over the next few years, QCTV has undertaken a programme of capital expenditures which should result in total outlays of around $6.5 million between 1972 and 1975. Additions to fixed assets equalled $1.7 million in 1972 and should amount to around $3.5 million in 1973 and the remaining $1.3 million by 1975. (It should be noted that an additional allowance of $490,000 has been made for contingencies.) After 1975 no major outlays are foreseen for development of the Edmonton system. Of this $7 million, about $2.5 million was acquired through public equity financing and $3.0 million from bank loans. The remainder should be provided from operating cash flow.

QCTV depreciates fixed assets at the annual rate of 10% of average gross fixed assets. Depreciation should be a large item for the Company as indicated below:

($'000)

	Actual	Est.	Projected		
Year ended August 31	1972	1973	1974	1975	1976
Gross fixed assets	$1,685	$5,200	$6,000	$6,500	$6,700
Average gross fixed assets	847	3,400	5,600	6,250	6,600
Depreciation	51	340	560	625	660
Depreciation as a % of					
Revenue	60.7%	27.2%	19.0%	15.6%	15.0%
Average gross fixed assets	6.0%	10.0%	10.0%	10.0%	10.0%

As illustrated above, we project an increase in depreciation charges from $51,000 in fiscal 1972 to $660,000 in fiscal 1976.

Interest Costs

At August 31, 1972, the Company had long term debt outstanding of $151,000 of which $17,000 is payable during the current fiscal year. Long term debt was comprised of a $115,000 agreement to purchase land and a building to be used for local origination repayable in $1,000 monthly installments, and $36,000 in finance contracts repayable in $16,000 annual installments. In addition, at fiscal 1972 yearend, QCTV had outstanding a $300,000, 9% subordinate debenture repayable by June, 1973 and a $900,000 bank loan repayable during fiscal 1973.

To help finance further expansion, the Company has arranged to borrow up to a total of $3 million with interest at the prime bank rate plus 2½%. The principal

amount of the loan is repayable in three installments: 10% by August 31, 1975; 60% by August 31, 1976; and the remaining 30% by August 31, 1977. However, we expect the bank debt to be repaid at an accelerated rate and payments to have been completed by August 31, 1976.

A summary of QCTV's long term debt and interest payments is presented below:

($'000)	Actual	Est.	Projected		
Year ended August 31	1972	1973	1974	1975	1976
Bank loan	$ 900	$3,000	$2,850	$1,600	--
9% debenture	300	--	--	--	--
Agreement to purchase land	115	114	114	113	$113
Finance contracts	36	20	4	--	--
Total debt	$1,351	$3,134	$2,968	$1,713	$113
Interest costs	$ 25E	$ 200	$ 240	$ 180	$ 65

On the basis of the above contractual obligations, we estimate that interest charges should rise from an estimated $25,000 in fiscal 1972 to $240,000 in fiscal 1974 and thereafter decline to $65,000 in fiscal 1976.

Earnings

After initial losses in fiscal 1972 and 1973 of around $148,000 and $140,000 respectively, we expect QCTV to begin generating a profit in fiscal 1974 as indicated below:

($'000)	Actual	Est.	Projected		
Year ended August 31	1972	1973	1974	1975	1976
Revenue	$ 84	$1,250	$2,950	$4,000	$4,400
Operating costs	154	850	1,650	1,725	1,550
Operating profit (loss)	($ 70)	$ 400	$1,300	$2,275	$2,850
Less: Depreciation and amortization	53	340	560	625	660
Interest costs	25	200	240	180	65
Pre-tax profit (loss)	($148)	($ 140)	$ 500	$1,470	$2,125
Income taxes	--	--	100	735	1,065
Net profit (loss)	($148)	($ 140)	$ 400	$ 735	$1,060
Shares outstanding ('000)	880	880	880	880	880
Earnings per share	($0.17)	($0.16)	$0.45	$0.85	$1.20

In general QCTV should experience growth in earnings greater than the industry over the next few years. Our estimate of future earnings is based on growth in subscribers to the 75% saturation level by 1975. This projection seems reasonable in light of the limited commercial TV service now available in Edmonton. In addition, the CRTC's recent Calgary Cable TV decision would indicate that QCTV should be able to add at least one more U.S. commercial station to its service thereby attracting more viewers. The Company has indicated that an application to this effect will be submitted to the CRTC in 1973. To date, QCTV's initial penetration has exceeded 50% in newly opened sectors of its licenced area. It should also be noted that no bulk

sales to apartment owners are being made in Edmonton and that QCTV's average annual revenue per subscriber is above the industry average.

In addition, for the reasons specified earlier, we estimate that the Company's operating profits should increase rapidly over the next four years and equal 68.4% of revenues in fiscal 1976. Depreciation should continue to represent a large portion of revenue, however, interest costs should decline after fiscal 1974 as current long term obligations are retired. Throughout, we have allowed for a tax rate of 50% except in fiscal 1974 when a tax loss carry forward should decrease the apparent tax rate to 20.0%.

In total, we estimate earnings of around $400,000 or $0.45 per share in fiscal 1974, rising to around $1.1 million or $1.20 per share in fiscal 1976.

Dividends

Since incorporation the Company has paid no dividends on its common shares and at the present time intends to retain any earnings to finance the development of the system. No dividends may be paid if the Company is in default on its bank loan. In the industry it has generally been the policy to withhold dividends until sufficient cash flow is generated to guarantee that dividend payments will not hamper efficient operation.

Financial Position

The Company's balance sheet at August 31, 1972 showed a working capital deficit of $1.5 million and a working capital ratio of 0.1 to 1. Long term debt outstanding totalled $134,000 comprising a $114,000 purchase agreement and a $20,000 finance contract.

Market Action

The shares of QCTV began trading over-the-counter on September 28, 1972 when the stock traded at $6.50. For the next week to ten days the shares remained in the $6 to $6.25 range before beginning a slow decline to $5 where the price stabilized. Since late 1972 the Company's shares have appreciated and are currently trading at $5 3/4.

Outlook

The outlook for QCTV Limited over the next few years is for rapid increases in both subscribers serviced and revenues and earnings generated. In this regard, we expect the Company to outperform the Cable TV industry, already the fastest growing segment of the communications industry.

We feel the prospects of increasing the amount of U.S. programming presently available via microwave are very good in light of the Canadian Radio-Television Commission's recent decision regarding Cable TV in Calgary. Further benefits should also accrue from the initiation of local programming by August 31, 1973. In summary, despite the early stage of development of its system, we expect QCTV to experience very high growth in its level of profitability over the next four years.

February 6, 1973

M. Theresa Quinn
(416) 860-3756

QCTV LIMITED

Statement of Earnings
For the Year ended August 31, 1972

Revenue	
Installations	$ 24,908
Subscriber rentals	55,494
Other	3,700
Total	$ 84,102
Operating and administrative costs	178,401
Depreciation and amortization	53,497
Net loss for the year	$147,796

Source and Use of Funds

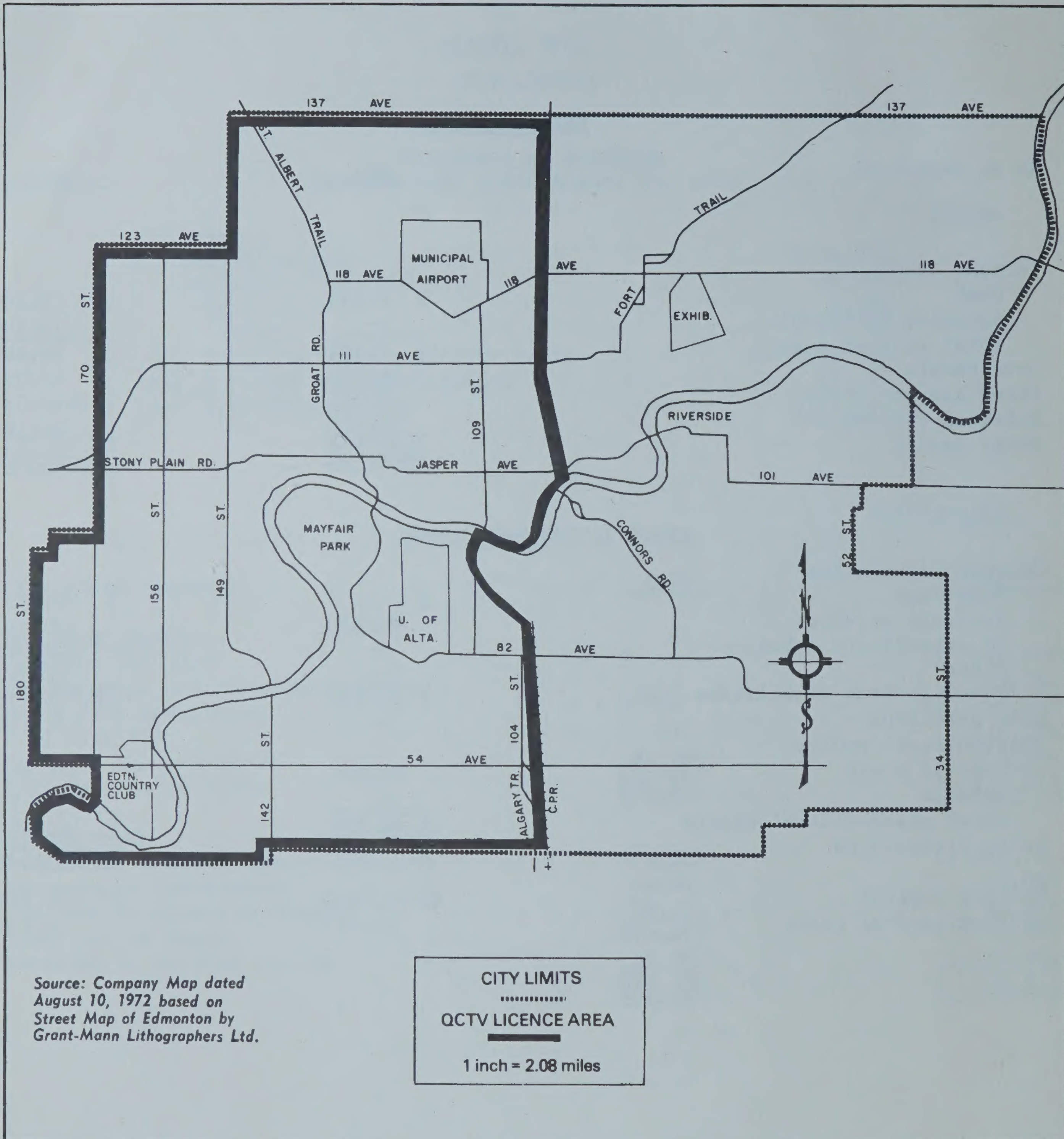
Year ended August 31	1971	1972
Source of Funds		
Earnings for year	$ --	($ 147,796)
Depreciation and amortization	--	53,497
Funds from operations	$ --	($ 94,299)
Long term debt	--	134,120
Issue of capital stock	80,950	219,050
Total source of funds	$80,950	$ 258,871
Use of Funds		
Additions to fixed assets	$ 9,211	$1,675,721
Increase in investments	26,020	15,000
Increase in deferred charges	58,584	12,202
Total use of funds	$93,815	$1,702,925
Decrease in working capital	12,865	1,444,054
	$80,950	$ 258,871

QCTV LIMITED

Balance Sheet

As at August 31	1971	1972
ASSETS		
Current assets		
Cash	$ 7,444	$ 78,552
Accounts receivable	--	20,439
Total current assets	$ 7,444	$ 98,991
Investments	26,020	41,020
Fixed assets (net)	9,211	1,634,035
Deferred charges	58,584	68,188
Total assets	$101,259	$1,842,234
LIABILITIES		
Current liabilities		
Bank loan	$ --	$ 900,000
Accounts payable	20,309	333,013
9% subordinate debenture	--	300,000
Other	--	22,897
Total current liabilities	$ 20,309	$1,555,910
Long term debt	--	134,120
Shareholders' equity		
Capital stock	80,950	300,000
Deficit	--	(147,796)
Total shareholders' equity	$ 80,950	$ 152,204
Total liabilities	$101,259	$1,842,234
Working capital	($ 12,865)	($1,456,919)
Working capital ratio	0.4:1	0.1:1

MAP
OF
CITY OF EDMONTON



The following list includes the name of every director of Pitfield, Mackay, Ross & Company Limited and of every person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Pitfield, Mackay, Ross & Company Limited: W. C. Pitfield, R. L. Hunter, D. L. Torrey, K. A. Wright, W. Y. Soper, D. C. Mackay, A. F. MacAllaster, H. H. Mackay, J. M. McAvity, D. J. Langill, B. E. Thompson, I. H. Black, F. H. Wells, H. T. Seymour, H. H. Turnbull, J. C. Boulet, A. L. Lloyd, C. Heusser, A. E. Borlase, M. R. Caceres, M. J. Wiggan, A. J. Langley.